

**New Markets Credit**

▶ Attach to your tax return.

| Name(s) shown on return   |   |                                   |  | Identifying number |                           |
|---|---|-----------------------------------|--|--------------------|---------------------------|
| (a)<br>Name and address of the qualified community development entity (CDE) | (b)<br>Employer identification number of CDE  | (c)<br>Date of initial investment | (d)<br>Amount of qualified equity investment | (e)<br>Credit rate | (f)<br>Credit ((d) × (e)) |
| <b>1</b>  |   |                                   |  | %                  |                           |
|   |   |                                   |  | %                  |                           |
|   |   |                                   |  | %                  |                           |
|   |   |                                   |  | %                  |                           |
|   |   |                                   |  | %                  |                           |
|   |   |                                   |  | %                  |                           |
|   |   |                                   |  | %                  |                           |
| <b>2</b>  | New markets credit from partnerships and S corporations . . . . .   |                                   |  | <b>2</b>           |                           |
| <b>3</b>  | Add lines 1 and 2. Partnerships and S corporations, report this amount on Schedule K; all others, report this amount on the applicable line of Form 3800, (e.g., line 11 of the 2006 Form 3800) . . . . . |                                   |  | <b>3</b>           |                           |

**General Instructions**

Section references are to the Internal Revenue Code unless otherwise noted.

**What's New**

- The tax liability limit is no longer figured on this form. Instead, it must be figured on Form 3800, General Business Credit.
- Taxpayers that are not partnerships or S corporations, and whose only source of this credit is from those pass-through entities, are not required to complete or file this form. Instead, they can report this credit directly on line 11 of Form 3800.
- The IRS will revise the January 2007 version of the form only when necessary. Continue to use this version for tax years beginning after 2005 until a new revision is issued.

**Purpose of Form**

Use Form 8874 to claim the new markets credit for qualified equity investments made in qualified community development entities (CDEs). This credit is part of the general business credit.

**Definitions**

**Qualified CDE**

A qualified CDE is a domestic corporation or partnership that meets the following requirements.

- Its primary mission is serving, or providing investment capital for, low-income communities or persons.
- It maintains accountability to residents of low-income communities through their representation on any governing board or advisory board of the entity.
- It is certified as a qualified CDE by the Community Development Financial Institutions (CDFI) Fund of the Department of the Treasury.

Qualified CDEs also include specialized small business investment companies and community development financial institutions. See section 45D(c)(2).

**Qualified Equity Investment**

A qualified equity investment is an interest in a qualified CDE in the form of stock (other than nonqualified preferred stock) in a corporation or a capital interest in a partnership that meets all of the following requirements.

- You acquired the investment solely for cash at its original issue (or from a taxpayer for whom the investment was a qualified equity investment). The cash may be from borrowed funds, including a nonrecourse loan.
- Substantially all (at least 85%) of the cash is used to make qualified low-income community investments. The 85% requirement is reduced to 75% for the seventh year of the 7-year credit period.
- The investment was designated as a qualified equity investment by the CDE on its books and records for purposes of the new markets credit.

Generally, a qualified CDE can designate an equity investment as a qualified equity investment only if it applied for and received a new markets credit allocation and entered into an allocation agreement with the CDFI Fund **before** the equity investment was made.



*Qualified CDEs must provide taxpayers holding a qualified equity investment with a completed Form 8874-A when a qualified equity investment is acquired.*

**Exceptions.** An equity investment in an entity that otherwise qualifies as a qualified equity investment is eligible to be designated as a qualified equity investment if made prior to an allocation agreement only if either of the following applies.

- The equity investment was made on or after April 20, 2001, and the designation of the equity investment as a qualified equity investment is made for a credit allocation received under an allocation application submitted to the CDFI Fund no later than August 29, 2002. If the entity in which the equity investment is made does not receive an allocation under an allocation application submitted no later than August 29, 2002, the equity investment will not be eligible to be designated as a qualified equity investment. For details, see Regulations sections 1.45D-1(c)(3)(ii)(A) and 1.45D-1(c)(3)(iii).

- The equity investment was made on or after the date the CDFI Fund publishes a Notice of Allocation Availability (NOAA) in the Federal Register, and the designation of the equity investment as a qualified equity investment is made for a credit allocation received under an allocation application submitted to the CDFI Fund under that NOAA. If the entity in which the equity investment is made does not receive an allocation under that NOAA, the equity investment will not be eligible to be designated as a qualified equity investment. For details, see Regulations sections 1.45D-1(c)(3)(ii)(B) and 1.45D-1(c)(3)(iii).

The maximum amount of equity investments so designated by the qualified CDE cannot exceed the amount of the allocation it received from the CDFI Fund. The names and addresses of qualified CDEs that have received an allocation for each allocation round and the amount of that allocation is listed on the CDFI Fund website at [www.cdfifund.gov](http://www.cdfifund.gov).

### How To Figure the Credit

A credit generally is allowed to the holder of the qualified equity investment on each of 7 credit allowance dates. The credit allowance dates are the date you make the initial investment and each of the next 6 anniversary dates. The credit is equal to the qualified equity investment multiplied by 5% (6% for the 4th through 7th years). However, the credit is not allowed for a credit allowance date if the investment is not a qualified equity investment on that date.

### Recapture of the Credit

You may have to increase your tax by a credit recapture amount if at any time within 7 years from the date of the original issuance of the qualified equity investment:

- The entity ceases to be a qualified CDE,
- Substantially all of the proceeds of the investment cease to be used to make qualified low-income community investments, or
- The investment is redeemed or otherwise cashed out by the entity.

**Exception.** If a CDE fails to use substantially all of the proceeds of a qualified equity investment to make qualified low-income community investments, the CDE may avoid recapture of the credit if it corrects the failure within 6 months after the date it becomes aware (or reasonably should have become aware) of the failure. Only one correction is permitted for each qualified equity investment during the 7-year credit period.

See section 45D(g) and Regulations section 1.45D-1(e) for details, including how to figure the credit recapture amount. Generally, include the credit recapture amount on the line for recapture taxes on your income tax return for the year in which the recapture event occurs. For example, the credit recapture amount on a 2006 Form 1040 is reported on line 63 (total tax) and the amount on a 2006 Form 1120 is reported on Schedule J, line 9 (Other taxes).

You are not subject to recapture of the credit solely because you sell or otherwise dispose of your investment. However, you cannot claim the credit for any credit allowance date after the disposition.



*Qualified CDEs must provide taxpayers holding a qualified equity investment with a completed Form 8874-B when a recapture event occurs.*

### Basis Reduction

You must reduce your basis in your qualified equity investment by the amount of the new markets credits allowed (even if part or all of the credit is not allowed for the current year and is carried forward). However, do not reduce your basis for purposes of figuring the exclusion of gain for:

- Qualified small business stock under section 1202,
- Certain DC zone assets under section 1400B, or
- Certain qualified community assets under section 1400F.

### Additional Information

For more details, see Pub. 954, Tax Incentives for Distressed Communities, section 45D, Regulations section 1.45D-1, or [www.cdfifund.gov](http://www.cdfifund.gov).

### Specific Instructions

#### Line 1

Enter the information requested for each qualified equity investment held directly by you on a credit allowance date in the current tax year. In column (e), enter the credit rate. For the first, second, or third year of the 7-year credit period, enter "5." For any later year, enter "6."

If you need more space, attach a statement showing all the information requested for each qualified equity investment. On the last row on line 1, write "See attached" in column (a) and enter the total of the credit amounts from the attached statement in column (f).

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

|  |                |
|--|----------------|
| <b>Recordkeeping</b> . . . . .                             | 6 hr., 13 min. |
| <b>Learning about the law or the form</b> . . . . .        | 1 hr., 12 min. |
| <b>Preparing and sending the form to the IRS</b> . . . . . | 1 hr., 20 min. |

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions of the tax return with which this form is filed.